

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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R 300957Z JAN 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 1742

INFO AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: EFIN, RP

SUBJECT: PHILIPPINE FOREIGN BORROWINGS

REF: MANILA 0058

SUMMARY: ACCORDING TO CENTRAL BANK (CB) AND COMMERCIAL BANKING SOURCES, THE PHILIPPINES IS PLANNING TO INCUR OVER \$1.6 BILLION IN ADDITIONAL MEDIUM AND LONG TERM FOREIGN DEBT IN THE RELATIVELY NEAR FUTURE. IN ADDITION TO \$664 MILLION IN EXIMBANK DIRECT AND GUARANTEED LENDING FOR THE NUCLEAR POWER PROJECT, THE \$256 MILLION UNGUARANTEED PORTION FOR THE NUCLEAR PROJECT WILL SOON BE OFFERED. TO MAKE THIS PLACEMENT MORE MARKETABLE, IT IS BEING LINKED WITH A \$250 MILLION BALANCE OF PAYMENTS LOAN; I.E., PARTICIPANTS IN ONE WILL HAVE TO TAKE AN EQUAL PICE OF OFTHE OTHER. TWO ADDITIONAL BOP PACKAGES OF \$50 MILLION EACH, PLUS A YEN LOAN OF \$50 MILLION EQUIVALENT, WILL BE PLACED ON THE MARKET AS SOON AS FEBRUARY. IN ADDITION, EMBASSY IS INFORMED THAT THE DEVELOPMENT BANK OF THE PHILIPPINES WILL SEEK A

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\$75 MILLION LOAN, PART OF WHICH WILL BE DEVOTED TO ASSIST-

ING THE TROUBLED NICKEL MINING PROJECT OF MARINDUQUE MINING. WHILE \$1.6 BILLION WOULD CONSTITUTE A LARGE ADDITION TO TOTAL PHILIPPINE FOREIGN DEBT, THE VARIOUS COMPONENTS OF THE TOTAL HAVE DIFFERING EFFECTS ON THE DEBT BURDEN, AND DEBT SERVICE CAPACITY APPEARS TO BE ADEQUATE. IT IS FAR FROM CERTAIN, HOWEVER, THAT INTERNATIONAL BANKERS WILL BE PREPARED TO ABSORB THIS AMOUNT OF NEW PHILIPPINE BORROWING.

END SUMMARY.

1. MANILA DAILIES HAVE REPORTED A NEWS CONFERENCE BY CENTRAL BANK (CB) GOVERNOR GREGORIO LICAROS, DURING WHICH LICAROS ANNOUNCED THAT THE CB WILL NEGOTIATE FOR FOREIGN LOANS OF \$400 MILLION TO COMPENSATE FOR BALANCE OF PAYMENTS (BOP) LOSSES. HE ALSO SAID THAT THE CB IS NEGOTIATING FOR A LOAN OF \$260 MILLION FROM THE EXTENDED FUND FACILITY OF THE IMF. LICAROS REFERRED TO THE EXIMBANK LOAN FOR THE NUCLEAR POWER PROJECT, STATING THAT EXIMBANK HAS AGREED TO A DIRECT LOAN OF \$300 MILLION AND GUARANTEES FOR THE SAME AMOUNT: WHILE ADDITIONAL COMMERCIAL LOANS OF \$200 MILLION (SOME VERSIONS REPORT \$250 MILLION) ARE TO BE NEGOTIATED.

2. EMBASSY HAS OBTAINED ON CONFIDENTIAL BASIS FURTHER DETAILS ON BORROWING PLANS BY GOP FROM LOCAL REPS OF MANUFACTURES HANOVER TRUST AND FIRST NATIONAL CITY BANK. THEY STATE THAT, AFTER INTENSIVE NEGOTIATIONS DURING RECENT WEEKS BETWEEN THESE BANKS AND AMERICAN EXPRESS ON ONE HAND, AND THE CB ON THE OTHER, AN APPROACH TO MEETING GOP FINANCING NEEDS HAS BEEN AGREED UPON, WHICH WAS TO HAVE BEEN FORMALLY APPROVED THIS WEEK.

3. THE KEY ASPECT OF THE FINANCING STRATEGY IS A PARALLEL APPROACH TO THE \$256 MILLION NEEDED FOR THE UNGUARANTEED FINANCING FOR THE NUCLEAR PROJECT AND AN APPROXIMATELY EQUAL AMOUNT (IN THE FIRST STAGE) FOR BALANCE OF PAYMENTS. IN ORDER TO SECURE PARTICIPATION IN THE NUCLEAR OFFERING (WHICH IS RELATIVELY UNATTRACTIVE BECAUSE OF HIGHER RISK, A SEVEN-YEAR TERM, AND THE PROBABILITY THAT IT WILL HAVE TO BE RESCHEDULED), IT IS LIMITED OFFICIAL USE

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LINKED TO THE MORE ATTRACTIVE FIVE-YEAR BALANCE OF PAYMENTS OFFERING. PARTICIPANTS WILL HAVE TO TAKE EQUAL, OR PRORATED AND NEARLY EQUAL, PIECES OF BOTH LOANS. THE BALANCE OF PAYMENTS LOAN WILL THUS TOTAL BETWEEN \$200 AND 250 MILLION. THE LOANS ARE CONSIDERED TO BE COMPLEMENTARY, SINCE THE BOP LOANS WILL BE NEEDED IN THE NEXT YEAR OR TWO, WHILE DRAWINGS FOR THE NUCLEAR PROJECT WILL NOT BE NEEDED UNTIL THE THIRD OR FOURTH

YEAR; TOTAL EXPOSURE OF PARTICIPANTS WILL THEREFORE BE SOMEWHAT LESS THAN THE COMBINED NOMINAL AMOUNTS OF THE TWO LOANS. THE CB HAS AGREED TO KEEP THE MARKET FREE OF ANY OTHER CB ISSUES FOR AT LEAST THREE WEEKS, AND LICAROS WILL SEND A MESSAGE TO ALL PROSPECTIVE PARTICIPANTS INFORMING THEM THAT THIS OFFERING REPRESENTS THE HIGHEST PRIORITIES OF THE GOP.

4. FOLLOWING THE THREE-WEEK PERIOD, WHICH LOCAL REPS EXPECT TO BEGIN FEB 2, OTHER MANAGERS WILL BE FREE TO APPROACH THE MARKET FOR ADDITIONAL BALANCE OF PAYMENTS LOANS. LEADERSHIP WILL FOLLOW THE PATTERN OF THE CREDIT LINE PACKAGES ARRANGED IN 1974. \$50 MILLION WILL BE HANDLED BY A EUROPEAN SYNDICATE HEADED BY MANUFACTURES HANOVER LONDON, \$50 MILLION BY KUHN-LOEB, AND A YEN LOAN OF \$50 MILLION EQUIVALENT BY A JAPANESE CONSORTIUM. A CB SOURCE ACKNOWLEDGES ONLY THAT THESE LOANS WILL BE OFFERED SOMETIME IN 1976, BUT BANKING SOURCES BELIEVE THAT IT WILL BE SOON AFTER THE THREE-WEEK PERIOD IS UP.

5. WE UNDERSTAND THAT MARINDUQUE MINING WILL NOT REPEAT NOT BENEFIT FROM THESE BOP ISSUES, SINCE THE CB IS PROHIBITED FROM DIRECT PARTICIPATION IN THIS MATTER. (SEE REFTEL FOR BACKGROUND ON MARINDUQUE PROBLEM.) MANTRUST AND FNCB BELIEVE THAT APART FROM THE ABOVE BORROWINGS, THE DEVELOPMENT BANK OF THE PHILIPPINES (DBP) WILL BE SEEKING A \$75 MILLION LOAN, PART OF WHICH WILL BE DEVOTED TO RELIEVING IN SOME FASHION THE MARINDUQUE SHORTAGE OF WORKING CAPITAL. THE MANAGER OF THIS LOAN IS FIRST NATIONAL OF CHICAGO, AND IT IS THOUGHT THAT IT WILL BE OFFERED TO THE MARKET WITHIN A MATTER OF DAYS. REPAYMENT TERMS ARE NOT KNOWN, BUT WILL PROBABLY BE ON THE ORDER OF FIVE YEARS.

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ACTION EA-09

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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6. ADDING UP LICAROS PUBLIC ACKNOWLEDGEMENTS OF \$800 MILLION FOR NUCLEAR POWER, \$400 MILLION FOR BALANCE OF PAYMENTS, AND \$260 MILLION FROM THE IMF, THE PRESS OBSERVES THAT THE PHILIPPINES IS ON THE VERGE OF SEEKING \$1.46 BILLION IN NEW FOREIGN BORROWINGS. EMBASSY'S OWN CALCULATION OF CONTEMPLATED FOREIGN BORROWINGS IS AS FOLLOWS (IN MILLION \$):

NUCLEAR POWER	900
EXIMBANK DIRECT LOAN	277
COMMERCIAL LOANS (EXIM GUARANTEED)	367
COMMERCIAL LOANS (UNGUARANTEED)	256
BALANCE OF PAYMENTS (I)	250
BALANCE OF PAYMENTS (II)	150
DBP	75
IMF EXTENDED FUND FACILITY	260
TOTAL	1,635

IT SHOULD BE KEPT IN MIND THAT THE \$644 MILLION EXIMBANK DIRECT AND GUARANTEED LENDING FOR THE NUCLEAR PROJECT IS LIMITED OFFICIAL USE

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VERY LONG TERM, AND WOULD HAVE MUCH LESS IMPACT ON THE DEBT SERVICE BURDEN THAN THE OTHER BORROWINGS.

7. THE BULLETIN TODAY REPORTS LICAROS OBSERVATION THAT INTERNATIONAL FINANCIAL INSTITUTIONS STILL GIVE THE PHILIPPINES A PRIME CREDIT RATING, AND THAT THE INTERNATIONAL BANKERS AND OTHER CREDITORS RECOGNIZE THAT THE 1975 DIFFICULTIES ARE OF A TEMPORARY NATURE AND ATTRIBUTABLE TO THE WORLDWIDE RECESSION. THE BULLETIN

ALSO REPORT LICAROS ASSURANCES ON THE ABILITY OF THE COUNTRY TO FINANCE THE INCREASED DEBT, AND HIS BELIEF THAT ADEQUATE INTERNATIONAL RESERVES AND THE CAPACITY TO DEFEND THEM SHOULD DISCOURAGE SPECULATION ON DEVALUATION OF THE PESO.

8. COMMENT: THE DUAL FINANCING APPROACH FOR THE NUCLEAR POWER PROJECT AND BALANCE OF PAYMENTS CORRESPONDS TO THE TWO SETS OF PRESSURES ON THE PHILIPPINE FOREIGN EXCHANGE PICTURE. THERE EXISTS A LONG-TERM NEED TO DEVELOP ALTERNATIVE SOURCES OF ENERGY AND REDUCE THE BURGEONING PETROLEUM IMPORT BILL; INVESTMENT IN NUCLEAR ENERGY OFFERS SOME FUTURE RELIEF. ON THE OTHER HAND, THERE IS THE IMMEDIATE AND RATHER ACUTE BALANCE OF PAYMENTS CRUNCH, WHICH IS HOPEFULLY A SHORTER-TERM PROBLEM. THE CB HAS FOUND THE CREDIT LINES ESTABLISHED IN 1974 USEFUL IN COPING WITH PRESENT PAYMENTS DIFFICULTIES, AND APPARENTLY SEEKS A LARGER CUSHION FOR THE ADDITIONAL DEFICITS PROJECTED FOR THE NEXT FEW YEARS.

9. THIS CONCENTRATION OF PHILIPPINE ISSUES COULD SATURATE THE MARKET AND DISCOURAGE PARTICIPATION, ESPECIALLY FOR THE LATER SYNDICATIONS FOR BALANCE OF PAYMENTS. WHILE GOV. LICAROS CORRECTLY OBSERVES THAT THE PHILIPPINE CREDIT RATING REMAINS HIGH, SOME BANKS ARE KNOWN TO BE LOOKING CAREFULLY AT THEIR TOTAL EXPOSURE IN THE PHILIPPINES.

10. WHILE THE EMBASSY DOES NOT WISH TO SOUND ALARMS OVER THIS CONTEMPLATED INCREASE IN DEBT, IT IS OBVIOUSLY A LARGE AMOUNT OF BORROWING. CAPACITY TO RETIRE NEWLY-INCURRED DEBT BURDEN WILL INCREASE WHEN, AS EXPECTED, LIMITED OFFICIAL USE

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EXPORT RECEIPTS BEGIN TO PICK UP IN THE LATTER PART OF 1976. LICAROS ASSERTION THAT ADDITIONAL DEBT BURDEN CAN BE BORNE THEREFORE APPEARS TO BE REASONABLE, AND THE PHILIPPINES IS CERTAINLY NO WORSE OFF THAN OTHER NON-OIL PRODUCING LDC'S. LOCAL IMF REPRESENTATIVE POINTS OUT THAT GOP STILL HAS AVAILABLE \$550 MILLION IN PREVIOUSLY ESTABLISHED CREDIT LINES, ACCESS TO ADDITIONAL IMF FACILITIES, AND HEALTHY FOREIGN EXCHANGE RESERVES. LOCAL U.S. BANK REPRESENTATIVES ALSO ESTIMATE GOP DEBT SERVICE RATIO TO BE ON THE ORDER OF A RELATIVELY COMFORTABLE 17 PERCENT. ON THE OTHER HAND, SOME U.S. BANK OFFICIALS HAVE EXPRESSED RESERVATIONS WITH RESPECT TO PROSPECTIVE BORROWINGS, AND SENIOR BANK OF AMERICA OFFICIAL HAS SUGGESTED TO US THAT PLACEMENT WILL BE DIFFICULT AT PRESENTLY ENVISAGED 1 3/4 PERCENT OVER LIBO. CERTAINLY, THE CAPACITY OF INTERNATIONAL FINANCIAL MARKETS TO ABSORB FURTHER PHILIPPINE BORROWINGS WILL BE TESTED OVER THE COMING WEEKS.

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